



A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Wilson Elementary School District No. 7

Year Ended June 30, 2002



STATE OF ARIZONA
OFFICE OF THE
**AUDITOR
GENERAL**

Debra K. Davenport
Auditor General

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

February 5, 2004

Governing Board
Wilson Elementary School District No. 7
3025 East Fillmore Street
Phoenix, AZ 85008-6120

Members of the Board:

We have reviewed the District's single audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2002, to determine whether the District substantially complied with the USFR.

As a result of this review and our [performance audit](#) of the District dated December 22, 2003, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report, along with the recommendations related to internal control deficiencies included in our performance audit report, within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Jerry Strom, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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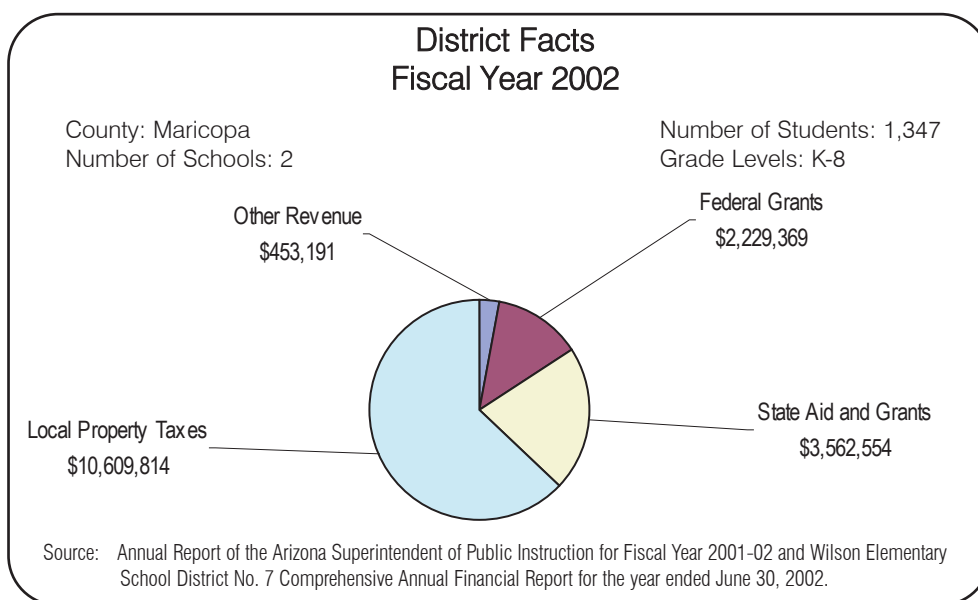
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INTRODUCTION

Wilson Elementary School District No. 7 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$16.8 million received in fiscal year (FY) 2001-02 to provide this education.

The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education. The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's single audit reports and USFR Compliance Questionnaire for the year ended June 30, 2002, and the District's performance audit dated December 2003, we determined that the District has failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship, and to comply with the USFR. Our recommendations are described on the following pages.



The District must follow competitive purchasing requirements

The District did not obtain competitive sealed bids for purchases from 9 of 10 vendors, as required by School District Procurement Rules.

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the auditors found that the District did not always follow the School District Procurement Rules or the USFR guidelines. For example, for purchases from 9 of 10 vendors, the District did not obtain competitive sealed bids when required, and for the other vendor, it did not properly follow the Procurement Rules. In addition, the District did not always obtain oral and written price quotations for purchases requiring them.

Recommendations

To strengthen controls over competitive purchasing, the District should establish and follow the policies and procedures listed below:

- Obtain competitive sealed bids or proposals, as appropriate, for purchases of construction, materials, or services exceeding \$32,700.
- Maintain a prospective bidders' list and include all the required information in the bids.
- Retain documentation that verifies bid advertisement and adequate notice, bid date- and time-stamping upon receipt, and the criteria used to award bids.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000 and written price quotations from at least three vendors for purchases estimated to cost between \$15,000 and \$32,700. If three price quotations cannot be obtained, the District should document the vendors contacted and their reasons for not providing a quotation.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$32,700.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.
- Sole source and emergency procurements and other exceptions.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$32,700.

The District's Annual Financial Report and Adopted Expenditure Budget should be accurate and complete

The District's Governing Board depends on accurate information so it can fulfill its oversight responsibility. To help provide that information, the District is required to prepare an annual financial report (AFR) that includes information compiled from the District's accounting records. The AFR should provide accurate information to the public and agencies from which the District receives funding. The District is also required to adopt an expenditure budget each year to inform parents and district taxpayers how it will spend the public monies it receives.

The District did not correctly report expenditures for several funds in its AFR and did not include all funds in its Adopted Expenditure Budget.

However, the auditors found that the District did not provide accurate and complete information in its AFR and expenditure budget. For example, the District incorrectly reported grant funds transfers as expenditures in the AFR, and expenditures for several funds reported in the AFR did not reflect the District's accounting records. In addition, the District did not include the required capital assets information in its AFR nor the Bond Building Fund in its Adopted Expenditure Budget.

Recommendations

To help ensure accurate and complete reporting of financial information in its AFR and Adopted Expenditure Budget, the District should:

- Record indirect costs from grant funds as transfers instead of expenditures.
- Include all required information in the AFR.
- Require a second employee to verify that amounts reported in the AFR agree with the accounting records.
- Review the expenditure budget before adoption to ensure all applicable funds are included.

The District should improve controls over student activities monies

The District did not effectively carry out its fiduciary responsibility for student activities receipts and disbursements.

Student activities monies raised through students' efforts are held by the District for safekeeping. Therefore, the District has a fiduciary duty to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight over these monies to ensure that proper procedures are followed for collecting and spending them. However, auditors reported that the District did not submit a monthly report of student club activity to the Governing Board. Also, the District did not deposit student activities cash receipts in a timely manner, and student activities disbursements were improperly based on purchase requisitions instead of actual vendor invoices. Further, the District did not have the student activities treasurer or assistant treasurer and another individual appointed by the Governing Board sign student activities checks.

Recommendations

The District should establish and follow procedures to improve controls over student activities monies that include the following:

- Submit a report of cash receipts, disbursements, transfers, and cash balances for the Student Activities Fund to the Governing Board monthly.
- Deposit cash receipts for student activities daily, if material, or at least weekly.
- Disburse student activities monies based on actual vendor invoices.
- Require two signatures on student activities checks. One of the check signers must be the student activities treasurer or an assistant student activities treasurer and the other an individual appointed by the Governing Board.

A sample monthly activity report is available on USFR page X-H-28.

The District should strengthen controls over its expenditures

The District spends tax dollars to purchase goods and services, so it is essential that the District follows procedures designed to help ensure that its purchases are approved and adequately supported. However, the District's auditors found that the District did not always follow proper procedures. For example, for 20 expenditures tested, the District ordered goods or services before a purchase order was prepared for 2 expenditures and did not maintain supporting documentation for 3 other expenditures.

Recommendations

To strengthen controls over its expenditures, the District should place orders with vendors only after properly prepared and approved purchase orders are generated. Specifically, the District should establish related procedures that require:

- Preparers to sign and date completed purchase orders.
- Authorized individuals to approve completed purchase orders.
- Assigned individuals to retain purchase requisitions, purchase orders, receiving reports, and vendor invoices that support the expenditures.

USFR pages VI-G-2 through 5 describe complete expenditure processing procedures.

The District's procedures for processing payroll need improvement

Salaries, wages, and related payroll costs are a major portion of the District's total expenditures. Therefore, it is critical for the District to have strong payroll controls to ensure that employees are paid accurately. However, the District did not have adequate controls over payroll processing, as it did not have a delayed payroll system.

Recommendations

To help strengthen controls over payroll processing, the District should establish a proper delayed payroll system with no more than a 2-week lag in accordance with

Arizona Revised Statutes §23-351 allows school districts to establish a lag time of up to 2 weeks.

Arizona Revised Statutes §23-351(C)(1). This type of system allows time for payroll adjustments to be made before payment to help ensure that employees receive only the amount of wages they have earned.

The District should obtain proper approval of its intergovernmental agreements

State law allows school districts to enter into contracts or agreements with other districts or public agencies to jointly exercise any powers common to the contracting parties, such as purchasing. School districts have been able to save money and obtain services not otherwise available to them through these cooperative efforts. It is essential that districts follow statutory requirements to help ensure that all intergovernmental agreements (IGAs) are valid. However, the District did not comply with these requirements when entering into such agreements. Specifically, the District did not obtain governing board approval for two IGAs, and attorney approval for one IGA. Although the IGAs were entered into in FY 2000-01, they extended into FY 2001-02 and were not subsequently approved.

Recommendations

When contracting with another school district or public agency, the District's Governing Board must:

- Adopt a joint resolution of purpose and objectives with governing boards of other participating entities to prepare an IGA.
- Prepare an IGA and have the District's attorney or county attorney review and approve it.
- Specify in the IGA which entity is to act as fiscal agent.
- Ratify the IGA.
- File the IGA with the county recorder, or Secretary of State if the agreement affects more than one county.
- Retain a fully-executed copy of the IGA in its files.

Arizona Revised Statutes §11-952 provides the requirements for intergovernmental agreements.